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TO: Michael Boyd, USAID

FROM: Margot Machol, Chesapeake Associates

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During the previous two and three quarter years under a grant from AID to Chesapeake Associates, we have met or exceeded all of our goals. The Institute for Strategic Studies and Prognoses (ISSP) has become an indispensable partner to the Montenegrin Government and to various international organizations (including USAID, EU, World Bank and IMF) involved in promoting economic reform. Increasingly, ISSP is looked to as the most trusted source of economic statistics, economic analysis, and policy recommendations.

Chesapeake Associates is extremely proud of the enormous impact this NGO has had, and is confident about the ability of ISSP to continue to play a dominant role in Montenegrin reform activities in the years ahead.

Chesapeake received a two-year grant beginning September 2001, followed by a six-month grant extension in September 2003 and a 3-month grant extension in February 2004. During each grant, we agreed to a number of goals. We exceeded each of these goals, (except for the goal of 50% financial sustainability) as follows:

Original grant:

Goal (1): Establish a new center for research and statistical analysis

Result: We established a new Center for Applied Research and Analysis (CARA) which provides regular research and analytical support to ISSP and CEED, and which has produced many sectoral analyses, developed the biggest economic data base in Montenegro, and conducted the first measurement of economic freedom in Montenegro.

Goal (2): Greatly expand ISSP staff and their capabilities

Result: From a staff of nine people in one organization (ISSP), it has grown to two organizations (ISSP and CARA) linked together in a network with twenty-two people, all of whom have received extensive training, and seven of whom have developed managerial and media skills and become quite well known.

Goal (3): Rationalize ISSP management and organization

Result: In order to get rid of overlapping responsibilities, ISSP set up an umbrella organization, the Economic Reform Network (ERN) consisting of three separate

organizations (ISSP, CARA and CEED), each of which has its own Program Director, who has taken increasingly more responsibility. The ERN is overseen by a President and an Executive Director, as well as by a Governing Board. The Board has received training and become quite active.

Goal (4): Expand outreach and advocacy capacities

Result:

- ISSP organized 12 roundtables on different topics (mostly providing a framework for public debate on and advocacy for new legislation) and launched a series of publications summarizing the roundtables called the Roundtable Edition.
- ISSP had more than 200 meetings with policy officials to advocate for reform.
- Of the legislative topics with which ISSP was involved, six were passed into law, and two more were accepted by the Government and are awaiting passage by Parliament.
- ISSP organized 6 seminars (including four outside Podgorica) to advocate for such things as public acceptance of newly passed legislation and the need for pension reform.
- ISSP co-organized a regional conference on energy with 100 participants from Albania, Bosnia, Croatia, Kosovo, Republic of Serbia, Romania, Serbia, and Slovenia. This was the first time in a long time that people from all of these countries came together to discuss common problems and agree on a regional approach.
- ISSP published 10 Working Papers on different topics to promote reform efforts.
- ISSP published 8 issues of Monet, which now consists of approximately 100 pages of economic statistics and analysis and has a circulation of approximately 250 decision-makers in Montenegro and another 500 in the region.
- ISSP published 5 Household Survey Reports. The Deputy Minister of Social Welfare said on TV that the Household Surveys were the only source of this type of information in the country, and the World Bank provided funding in acknowledgment of the high quality of the work.
- ISSP members had extensive and significant media appearances to advocate for policy reform. This included frequent quotations in various newspapers (approximately 30 per month) and appearances on TV and radio live talk shows (approximately 20 per month).

Goal (5): Strengthen the capacity to carry out a targeted economic policy reform program

Result:

- After two and a half years of gathering data, doing calculations and analyses, and preparing preliminary papers, ISSP produced the first accurate GDP calculation for Montenegro. It was recognized as the most accurate available number, and accepted by the Government of Montenegro, including the Ministry of Finance, Ministry of Economy, and Ministry of Trade, as well as the Central Bank and the key international organizations, such as the World Bank, IMF, and EU.
- *Macroeconomic Policy for the Central Bank*, a 70-page policy agenda for 2003, was prepared by ISSP at the request of the Central Bank, on a variety of topics including interest rates, reserve requirements, bank privatization, and the

consequences of pension reform on the banking system. This policy agenda was adopted in January by the governing board of the Central Bank, on which it based its plans for 2003. This shows how highly the Central Bank values the work of ISSP, as well as the extraordinary level of influence on government policy achieved by ISSP.

- ISSP helped the Ministry of Social Welfare by providing data and analysis in support of the Poverty Reduction Strategy (PRS) for Montenegro. The Government asked ISSP to take a significant role to monitor the results.
- ISSP actively supported BearingPoint and other USAID implementers to help achieve success in passing legislation, establishing new institutions (stock exchange, SEC, Central Bank, commercial code), and training the staff of the new institutions (chairman of the SEC, chief economist of the Central Bank).
- ISSP formed six KRA teams (interagency teams of government and NGO policy experts in Key Result Areas) that regularly met on policy issues. Some have already produced results; others are making progress. For example, the KRA energy team produced several papers for the energy conference, and advocated for passage of the energy law. The KRA statistics team continues to produce higher quality statistics. The KRA trade team worked on harmonization of the customs and tariffs between Montenegro and Serbia. The KRA tourism team drafted a paper leading to the first sectoral analysis of tourism. The KRA pension team produced two papers, drafted a brochure, and was active in advocating for pension reform on TV and in the newspapers. The KRA capital markets team supported the takeover law, organized three roundtables and worked with the SEC to finalize the law. The law is prepared for submission to the Ministry of Finance.
- Two ISSP members represented the views of the GoM in discussions on the economy with Serbia and the EU that led to signing the Belgrade Agreement. In addition, the ISSP Executive Director was the advisor to the Parliamentary Delegation in the discussion that led to the Constitutional Agreement.

Goal (6): Provide for ISSP's long-term financial sustainability

Result:

- Before this grant, ISSP did not have any additional sources of income. During the two years of this grant, and continued through the nine-month extensions, ISSP signed contracts with the following institutions: the World Bank, the European Commission Food Security Program (ECFSP), the United Nations Development Program (UNDP), and the Central Bank of Montenegro. The European Agency for Reconstruction (EAR) awarded ISSP's Monet partner, CEPS, 200,000 euros for four additional issues of Monet. (While to date, ISSP did not receive as much of the EAR funds as they were promised – around 34,000 euros, they remain hopeful that they will get some money in the future.) Twenty percent of the subscriptions for Monet are now paid, as an additional step toward ISSP's financial self-sufficiency. All of these outside sources of funds have produced approximately 20 per cent of ISSP's operating budget. However, it will take another three to four years for ISSP to become 100 per cent self-supporting.

Six Month Extension:

Goal (1): Continue to help the Government implement the Economic Reform Agenda

Result: Continued to support the government by managing the key economic areas and participating in the relevant working groups to implement the Economic Reform Agenda. ISSP representatives are on nine of sixteen working groups set up in agreement with the Government to help develop, ensure passage of, and monitor the Agenda. These groups are: macroeconomics and statistics, fiscal policy, financial market reform, pension reform, energy, business legislation, privatization and post-privatization, trade and customs policy, and local community development. This indicates the extent of their involvement.

Goal (2): Work with FIAS to follow up July visit in preparing a diagnostic study on the investment environment for Montenegro

Result: Assisted FIAS in preparing a diagnostic study on the investment environment for Montenegro; promoted recommendations from the report, which was ready in November; organized the highest level roundtable ever held in Montenegro to present the report in December to 54 key decision makers; organized public events, arranged meetings with key government personnel (including the Prime Minister, Deputy Prime Minister, and Cabinet Members), and arranged extensive media and advocacy for acceptance of recommendations to promote the need to increase investments in Montenegro (newspaper, TV talk shows).

Goal (3): Prepare calculation of 2003 GDP

Result: ISSP's previous calculation of GDP in 2002 was recognized by the IMF, World Bank, Central Bank, Ministry of Finance, and AID. ISSP continued its efforts and recalculated the 2003 GDP in March 2004.

Goal (4): Prepare Household Surveys 8 and 9

Result: Conducted research, surveys, data collection and analysis. HHS 8 (October 2003) and HHS 9 (February 2004) were prepared and published. Data for HHS 10 was gathered during the month of May 2004. A new Editorial Board was appointed. The number of pages was significantly increased to over 130 pages of textual analysis from 40 pages at the beginning. The average number of recipients was increased from 30 (mostly Ministries within the GoM) to over 300 (including private sector, NGO, Government, Parliament, foreign donor organizations, Embassies, etc). Media coverage of the HHS reports was improved (TV, radio, daily newspapers, special talk shows). Poverty reduction strategy for Montenegro was completed only due to the ISSP HHS reports since that was the only source of data available.

Goal (5): Prepare MONET 15 and 16

Result: Conducted research, data collection, surveys and analysis for MONET 15 (December 2003) and MONET 16 (March 2004). Published and distributed MONET 15. MONET 16 prepared for printing. A new editorial board was appointed. The number of pages was increased to 140 on average. The average number of recipients was increased from 50 to over 300, including the private sector, banks, NGOs, the Government, Parliament, foreign donor organizations, embassies and consulates. Media coverage was

significantly improved with, on average, five press conferences per issue devoted to specific topics and over 25 quotes in the media per issue. MONET is currently used in every Government Ministry.

Goal (6): Set up a new project on improving statistics by the end of 2003

Result: A new project was set up and, by March 2004, for the first time, there was an exchange of data by the Central Bank, Customs, Ministry of Agriculture, Ministry of Finance, Ministry for Foreign Economic Affairs and EU Integration, Bureau of Statistics, and ISSP. This resulted in an increase in the exchange of data among the responsible institutions, and ISSP played a key role in this process.

Goal (7): Conduct a second survey on employment

Result: By February 2004, following the addition of 25,000 newly created jobs, ISSP conducted a second survey on the employment situation in Montenegro, looking at the needs of the business community, and conducted an analysis on qualifications, education, gender, ethnic background, and age of those hired. The survey was used by the Fund for Employment and the cabinet of the Deputy Prime Minister, both of which were responsible for stimulating employment programs in Montenegro

Goal (8): Continue work on four previously completed sectoral analyses

Result: Updated work on sectoral analyses in four areas: trade, agriculture, banking, and tourism. Modified, updated, and expanded the analyses, and worked closely with the relevant government institutions (Ministry of Foreign Economic relations and EU Integration, Ministry of Agriculture, Central Bank, and Ministry of Tourism) to implement the recommendations.

Goal (9): Produce five papers on a variety of topics

Result: Prepared papers on: (i) Energy Sector in Montenegro; (ii) Private Pension Funds; (iii) Balancing Montenegro Current Account; (iv) General Collective Agreement; and (v) Indicators of Montenegrin Indebtedness. The papers were distributed to Members of Parliament, members of the cabinet, NGOs, the private sector, media, and the international donor community. All papers were quoted in the media and were quoted in public debates.

Goal (10): Continue to assist the government to develop its Poverty Reduction Strategy

Result: Worked closely with the government to set up appropriate indicators for poverty assessment and monitoring changes. The unique ISSP integrated poverty profile has been incorporated into the Poverty Reduction Strategy (PRS) for Montenegro. This part of the strategy has been recognized as the most valuable by the IMF and the World Bank.

Goal (11): Continue work in CARA to expand the databases

Result: Expanded the databases to include data on the banking sector, on the achievement of primary school children, and on the number and make and registration of automobiles. In addition, the database was expanded by 30 new series of different macroeconomic variables related to the labor market, industrial production, investment, the fiscal sector and monetary policy.

Goal (12): Provide support to the WTO team

Result: Worked closely with the WTO team that started its operations in September 2003.

Goal (13): Continue to provide support to the BearingPoint team

Result: ISSP continued to support the Bearing Point team in areas requested by USAID or BearingPoint.

Goal (14): Continue to improve ISSP and CARA management and research skills

Result: Two training programs were organized: one to improve the research skills of the CARA and ISSP teams, and one to improve ISSP and CARA procedures. In addition, an e-views training course was organized, for which all of the CARA and ISSP staff successfully passed the final exam.

Goal (15): Prepare proposals for continued funding from AID and elsewhere

Result: At the request of USAID, a proposal was prepared for a three month extension for ISSP with Chesapeake, and then a 24 month extension for ISSP as a direct grantee. In addition, ISSP submitted proposals to GDN (Global Development Network) and UNDP (United Nations Development Program).

Three Month Extension:

Goal (1): Prepare ISSP for a direct grant from AID

Result: Chesapeake and ISSP continued to work together closely. In addition, Chesapeake and ISSP worked closely with AID-Montenegro and AID-Budapest to develop an acceptable budget and work plan and to resolve any questions regarding management capability to ensure a smooth transition.

Goal (2): Prepare MONET 17

Result: MONET 16 was printed. It was distributed and received media attention in the manner described above. Conducted research, data collection, surveys and analysis and preparation for printing for MONET 17. It will be out by the end of July.

Goal (3): Prepare Household Survey 10

Result: Data collection for the new Household Survey was completed. The new topics covered environmental issues, health, and social assistance. It will be available the beginning of September. The data entry program was improved as a result of the World Bank's in-kind support. The World Bank and the World Bank Institute recognized ISSP's Household Survey Reports as the best practice for the region and, as a consequence, ISSP conducted a regional training program on how to organize data collection for household surveys.

Goal (4): Work with FIAS to follow up July visit in preparing a diagnostic study on the investment environment for Montenegro

Result: Continued to assist FIAS to finalize the diagnostic study on the investment environment for Montenegro; began follow up work to develop an Investment Promotion Strategy and to set up an Investment Promotion Agency.

Goal (5): Continue to assist the government to implement its Poverty Reduction Strategy

Result: A set of appropriate indicators was created for further poverty assessment and monitoring changes. As a result, the Government asked ISSP to facilitate development of the strategy for refugees and IDBs (internally displaced persons) which is now in progress and will be completed by September.

Goal (6): Complete first Transition Report

Result: Completed the first Transition Report ever prepared for Montenegro, in cooperation with the G-17 Institute from Belgrade.

Goal (7): Complete two, update two, and start two sectoral analyses

Result: Completed work on sectoral analyses in banking and tourism. Updated work on sectoral analyses in trade and agriculture, by modifying, updating, and expanding the analyses. Worked closely with the relevant government institutions (Ministry of Foreign Economic Relations and EU Integration, Ministry of Agriculture, Central Bank, and Ministry of Tourism) to implement the recommendations in the four analyses. Started work on sectoral analyses in energy and maritime, which will be complete by September 2004.

Goal (8): Conduct three roundtables

Result: Organized and held a roundtable on private pension funds with the Securities Commission; a roundtable on development of tourism and agriculture in Romania and Montenegro with the Tourism and Agriculture Ministries; a roundtable on the law on official statistics with Monstat, the Central Bank, Ministry of Finance, and other key institutions; and a roundtable on the law on national statistics with Monstat.

Goal (9): Produce three economic policy papers

Result: Prepared and distributed a paper on reform of the first pillar of the Montenegrin pension system; a paper on the situation in the Montenegrin labor market; and a paper on balance of payments with a special focus on Montenegro.

Summary:

ISSP has played an important role to help achieve implementation of the Government's agenda. It is difficult to imagine that the Government of Montenegro would be as successful without the continued active involvement of ISSP: to provide the independent research, surveys, statistics, analysis, and macroeconomic data that are the underpinnings of legislation; to assist in drafting legislation and regulations; to organize seminars and roundtables where the government, private sector, and international organizations debate legislative proposals; to advocate in the media for public acceptance of reform; and to monitor the progress of the reform activities.

While ISSP has not yet achieved 50% financial independence, we are confident that it will ultimately achieve financial stability. There is both a demand and a need for the independent statistical research, analysis, surveys and macroeconomic data that only ISSP currently provides among the private sector, government, domestic, and international

organizations. Contracts signed with international organizations in the past few months indicate that ISSP's reputation has been established. With the acceleration of the reform process, the breadth of reform issues is increasing. No other independent organization has the capacity or reputation to carry out the research, the analysis, and the advocacy that ISSP has been providing.

It is hard for me to imagine that AID has ever achieved a greater impact for the amount of funding it has spent than it has on this project. I am proud to submit this final report at the conclusion of an extremely successful project. The three annual progress reports previously submitted are attached for further documentation of the extraordinary accomplishments of this project. I am confident that ISSP and CARA will continue to play an invaluable role in helping to achieve economic reform in Montenegro in the months and years ahead.